

TO: Rich Camisa

Date: Monday, June 8, 1992

FROM: Andrew MacRae/Mary Schroeder

SUBJECT: **Marlboro Summer Special**

OPPORTUNITY

During July, Field Sales will execute a national co-funded price promotion. Single pack, 2 pack and 3 pack price offers will vary by geography.

BACKGROUND

Marlboro's volume is soft and consumer confidence has been low throughout the first half of '92 and consequently has provided an environment for growth and opportunity for the lowest price tier. The share of BW/PL has grown substantially during this period and now stands at 8.44 points, up 3.69 points versus a year ago (3MM, April '92). Marlboro in particular has been sensitive to the lowest price tier. Not only do price gap dynamics contribute to escalating consumer trade down, but empirical data suggest that alternate purchase and consumer shift to the low end is further exacerbated when the price of Marlboro crosses the \$2 price threshold. As Marlboro's price has crossed this barrier in an increasing number of markets, the brand continues to exhibit hyper sensitivity and interaction with the lowest price tier, which in some markets can have an absolute price below \$1.00 resulting in a price gap in excess of 50%.

Recently, consumer confidence has picked up and the economy is finally starting to exhibit signs of recovery. This increase in confidence coupled with Marlboro's historically strong performance during the summertime has provided a window of opportunity during July to leverage this momentum by strategically using price promotion.

OBJECTIVE

Short Term

- Grow Marlboro volume by executing geographically varying co-funded price promotion.
- Increase overall visibility with banners, ad features and point-of-purchase signage.
- Incent retailers to build store traffic and increase category and overall sales by price reducing and featuring Marlboro.
- Develop Sales profitability story and use as learning tool for future price promotion.

Long Term

- Maintain Marlboro volume and share growth through extended retailer sponsored price promotion.

STRATEGIES

The "Marlboro Summer Special" will be a co-funded promotion with a \$0.25 per pack contribution from Marlboro and a minimum of \$0.10 per pack contribution from the retailer. Retailers are not limited to the \$0.10 off per pack, however, Marlboro will not increase its portion of the funding beyond the \$0.25 per pack. To the extent a retailer contributes more than \$0.10 per pack, the retailer will be able to feature Marlboro at a lower price.

A mandatory requirement for retailer participation is the prominent placement of exterior and interior eye catching banners, window signs, and day glow starbursts. Only to the extent price is featured through exterior communication will retailers be able to leverage Marlboro as a traffic builder. This includes feature advertising.

In markets where Marlboro's average pack price is over the national average of \$2.09 and selected states where Marlboro's share is declining and BW/PL share is growing, retailers will be offered single pack, 2 pack or 3 pack price promotion. We have identified 17 states where this is the case and represents approximately 62% of Marlboro volume. In these markets, consumers are more apt to purchase cigarettes by the single pack than by 2 or 3 pack deals. Furthermore, to the extent a co-funded price promotion increases traffic and builds sales, retailers may continue to price feature Marlboro on their own. Below is a list of selected states where single pack price promotion will be an option:

ARKANSAS	MISSOURI
CALIFORNIA	MINNESOTA
CONNECTICUT	NEW JERSEY
FLORIDA	NEW YORK
ILLINOIS	OHIO
INDIANA	OKLAHOMA
KANSAS	TEXAS
MASSACHUSETTS	WASHINGTON
MICHIGAN	

The promotion duration at retail for single pack promotions will be a two week period. The promotion duration for 2 and 3 pack deals will be a four week period.

In the remaining geographies, retailers will be offered only 2 and 3 pack deal price promotion. In these geographies cigarette prices are below the national average of \$2.09 per pack and in most markets are below \$2.00 per pack. Retailers are already funding and sponsoring 2 and 3 pack deals in these markets. We will simply encourage retailers to extend these multi-pack deals.

PROGRAM DETAILS

- Timing: July 1 - August 14
- Offer: Single pack, 2 and 3 pack co-funded price promotion
Philip Morris funds \$0.25 per pack; Retailer funds \$0.10 per pack (minimum)
- Participation: 55,510 accounts or 46% penetration of 100+ CPW accounts
- Units: 1.5 billion
- Cost: \$20.8 million; \$13.87/M

Consumer Offer

Consumers will receive a minimum of \$0.35 off single pack deals, \$0.70 off 2 pack deals and \$1.05 off 3 pack deals of any packing of Marlboro during the scheduled promotion.

The promotion duration for single pack promotion is two weeks. The duration for 2 and 3 pack promotion is four weeks.

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Accounts already offering 2 and 3 pack pricing must offer this discount in addition to their current 2 and 3 pack deal offers. This will guarantee a minimum of \$0.70 and \$1.05 price differential between Marlboro and other full price brands offered through 2 and 3 pack pricing specials, respectively.

Retail Offer - Single Pack Promotion (17 Selected States)

Participating accounts will receive a \$2.50 per carton allowance on all pre-booked cartons of Marlboro up to 1.30 times their average weekly Marlboro sales for a two week period based on actual store invoices.

Retail Offer - 2 and 3 Pack Promotion

Participating accounts will receive a \$2.50 per carton allowance on all pre-booked cartons of Marlboro up to 1.25 average weekly Marlboro sales (for all volume sold on deal = 65% of total pack volume) for 2 and 3 pack price deals, for a four week period based on actual store invoices .

All packings currently in distribution should be included in all offers and Sales Reps should use this price-off opportunity to increase distribution of new Marlboro Medium 100's. This promotion should not run concurrent with any other Marlboro pack program.

Minimum Price States

In minimum price states, if retailers cannot contribute at least \$0.10 per pack, comparable value must be provided (e.g. advertising, additional PM display, P.O.S., etc.). See attachments for details)

Retail Payment

PM Sales Reps will determine the total, contractual promotional payment with retailers and then pay retailers 50% of total payment on program start and the balance of payment at the end of the program. Payment method will be through flex check and chain invoicing.

Retail Execution

No temporary displays have been produced for this promotion. The offer will be communicated via exterior and interior P.O.S. materials. Marlboro single pack, 2 and 3 pack deals must be merchandised on a permanent counter display which is in prime position (mutually agreed upon by PM Sales Rep and retailer). Retailers should make sure the permanent counter display, OHPM and CPP display (if applicable) are fully loaded throughout the scheduled promotion period.

Participating accounts will be required to reduce all single, 2 and 3 pack purchases of Marlboro by \$0.35, \$0.70 and \$1.05, respectively. No product will be banded.

Materials

Special price reduction starbursts have been produced for this promotion to ensure strong price communication at the point-of-sale. "Marlboro Summer Special " will be printed on the starbursts and Sales Reps will be required to write in both the final price and/or the dollar savings, as required by local law. Each participating account will be given four price reduction starbursts (2 large, 2 small) for placement. At least one starburst is a requirement for this promotion.

Large Marlboro pricing banners are being provided with a "Summer Special" starburst to be used for exterior price communication. These banners will provide the most effective visibility and price call out for achieving program objectives.

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"Marlboro Summer Special" window posters have been produced for this promotion. Each participating account will be given two horizontal and two vertical window posters for prominent front window exterior/interior placement. Retailers are required to place either a large pricing banner or window poster or both. Sales Reps will be required to write in both the dollar savings and/or the final price as required by local law.

"Marlboro Summer Special" counter balance pricing overlay signs have been produced. Large and small signs will attach to counter balance and wall pole signs.

P.O.S. kits have been allocated to sections. P.O.S. kits include the following:

- 2 Window Poster - Horizontal
- 2 Window Poster - Vertical
- 2 Large Starburst
- 2 Small Starburst

One P.O.S. kit is required for each participating account. Large Price Banners and counter balance pricing signs are allocated separately.

Retailer Performance Verification

The following should be verified at the beginning of this promotion:

- 1) Retailers are offering consumers the price savings throughout the period as specified.
- 2) Retailers have placed at least one starburst near checkout and a banner/poster in a highly visible exterior and interior location. Placement must be maintained throughout the promotion period to qualify for full payment.

Sales Reps should attempt to verify that each participating store is in compliance by cycling through the accounts after two weeks and again during the fourth week (for 2 and 3 pack promotion), which at this time the retailers will be paid the balance of the promotion payment.

Sell-In Materials

Single pack, 2 and 3 pack selling kits are attached. Kits include:

- Teaser Introduction
- Program Guidelines and Pre-Booking Worksheet
- Program Profitability Page
- C-Store Test Results
- Minimum Price State Guidelines
- Pre-Booking Forms
- Retailer Participation Agreement

Copies should be made locally for use in presentations. The standard pre-booking form is to be used for ordering product.

Reporting

Use the following promo codes for ICR reporting, flex check payments and chain invoicing.

<u>Offer</u>	<u>Promo Codes</u>
\$0.35 Off Single Pack	235A
\$0.70 Off 2 Packs	235B
\$1.05 Off 3 Packs	235C

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Ordering Procedures (SOM's)

Orders for the P.O.S. kits should be placed via MIDAS (PF 19) starting June 8 for delivery to P.O.S. depots starting the week of June 29. Order one kit for each participating account.

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